STANDARD
&POOR'S

Global Credit Portal
RatingsDirect®

July 9, 2010

# Miami-Dade County Expressway Authority, Florida; Toll Roads Bridges

**Primary Credit Analyst:**
Kurt Forsgren, Boston (1) 617-530-8308; kurteric_forsgren@standardandpoors.com

**Secondary Credit Analyst:**
Joseph J Pezzimenti, New York (1) 212-438-2038; joseph_pezzimenti@standardandpoors.com

## Table Of Contents

# Miami-Dade County Expressway Authority, Florida; Toll Roads Bridges

| Credit Profile | | |
|---|---|---|
| US$262.39 mil toll sys rev bnds ser 2010 due 01/01/2035 | | |
| *Long Term Rating* | A/Stable | New |
| Miami Dade Cnty Expwy Auth toll sys (FGIC) (ASSURED GTY - SEC MKT) (wrap of insured) | | |
| *Unenhanced Rating* | A(SPUR)/Stable | Affirmed |
| Miami Dade Cnty Expwy Auth toll (wrap of insured) (FGIC & BHAC) (SEC MKT) | | |
| *Unenhanced Rating* | A(SPUR)/Stable | Affirmed |

## Rationale

Standard & Poor's Ratings Services has assigned its 'A' rating to Miami-Dade County Expressway Authority (MDX or the authority), Fla's $262.4 million series 2010 toll system revenue bonds. At the same time, Standard & Poor's affirmed its 'A' underlying rating on MDX's $912.8 million parity senior lien revenue bond debt outstanding, including series 1999, 2000, 2001A, 2002, 2004A-B, 2005A-E, and 2006 bonds. The outlook is stable.

The rating reflects our assessment of the toll system's good market position, serving a large commuter user base; its sizable capital plan; and solid projected medium-term coverage of the system's obligations, assuming no toll increases, but incorporating what we believe to be optimistic long-term population forecasts.

More specifically, the rating reflects what we consider to be the following strengths:

- A large and diverse service area economy that has contributed to overall positive toll system operating trends despite the recession's significant and negative effects;
- The critical links the urban toll system provides within the Miami-Dade County region roadway network. It features moderate-to-significant time savings compared with travel times on free alternative routes, especially during the morning and afternoon peak periods;
- Operating revenue benefits from the current capital program and open road tolling (ORT), or all-electronic toll collection, for the entire system to capture the approximately 55% of users who exit before paying tolls; and
- Strong record of management and project delivery. Reflecting this is recent solid financial performance from past toll increases and system expansion resulting in senior operating debt service coverage (DSC; excluding money in the rate-stabilization account) in fiscal 2009 of 1.71x and 1.47x, including all unrated subordinated debt. We consider liquidity very strong, as it equaled nearly 500 days' cash in fiscal 2009.

In our view, credit concerns include:

- A large and ongoing capital program totaling $468 million through 2015 that will result in higher medium-term debt levels;
- An above-average one-way system cost of 19.6 cents per mile for cash customers and 14.9 cents for electronic transponder (SunPass) users. There has been some price sensitivity after four toll increases since 1999, the most recent in fiscal 2006. Declining operating DSC to a minimum of 1.4x (management-policy level) through 2015

assumes no toll increases and successful ORT implementation, which necessitates controlling operating costs; and
- Long-term forecasts that include population assumptions unchanged from 2006 and that, in our opinion, do not fully account for potential changes resulting from the recession.

The system's net revenues secure the bonds. MDX is issuing the bonds to finance portion of the capital program, including capitalized interest and a deposit to the debt service reserve fund. After issuing the bonds, the authority will have approximately $1.18 billion outstanding in senior-lien bonds and $47 million in unrated subordinated state loans. Senior parity bonds mature in 2040. Debt service rises to $71.1 million in 2012 and a maximum of $86.4 million in 2027 from $57.4 million in 2011. We expect the 2010 bonds to have essentially level annual debt service requirements ($13.4 million) after an initial capitalized interest period. The bonds are currently term bonds with principal repayment beginning in 2034 (after current parity debt matures) and a final maturity of July 1, 2038.

Despite the recession and the traffic-dampening effects of four toll increases in 10 years, we believe the system has performed relatively well, with strong financial performance ahead of upcoming debt increases and projected revenue growth associated with ORT. Transactions were down just 1.8% in fiscal 2009; year-to-date, transactions in fiscal 2010 are running even to the previous-year period. Transactions have declined each year from 1999's peak of 215, 699 total daily transactions until 2008, when they jumped to 323,199 associated with the SR 836/Dolphin Expressway mainline plaza expansion and extension. We believe transaction counts will expand significantly as toll-free movements on the system are reduced with all-electronic tolling and nearly all movements will be captured either by SunPass or video tolling. Toll revenues declined 3.3% in fiscal 2009; year-to-date, 2010 figures show a modest 1.4% decline compared with that of the previous-year period.

Overall, with the benefit of toll increases and expanded SunPass penetration rates, revenues have increased an average of 17.8% a year since 1999, while expenses have increased an average of 10.8%. Recent financial operating margins which were very strong, in our view, include senior-lien DSC peaking at 2.5x in 2007 and falling to a still solid 1.71x in 2009 (excluding money in the rate stabilization account). Liquidity remains very strong in our opinion, with nearly 500 days' cash in fiscal 2009. We view the authority's steps taken to bolster debt service reserve levels as a credit strength. The capital program is large with some technical challenges, in our opinion, but it is achievable and critical to realizing the financial performance necessary in servicing the authority's increasing debt load. We also view management as capable, with prudent financial policies and a good track record of project oversight and delivery.

We have assigned MDX a Standard & Poor's overall Debt Derivative Profile (DDP) score of '1.5' on a scale of '1' to '4', '1' representing the lowest risk. The overall score of '1.5' reflects Standard & Poor's view that the issuer swap portfolio reflects very low credit risk.

## Outlook

The stable outlook reflects our expectation that traffic and revenue will proceed as forecast, and that MDX will complete system improvements without delays or significant cost increases. We would view financial performance exceeding projections resulting in improved operating margins. In the next two years favorably, and it could lead to an upgrade. Erosion in those measures below estimates could result in a downgrade.

## Economy And Service Area

Miami-Dade County is southeast Florida's major population (13.5% of the state's total) and employment center. The county and Miami metropolitan area experienced a housing, population, and employment boom that extended beyond the first half of the decade. Population increased approximately 7.9% since 2000 to an estimated 2.50 million in 2008, and officials expect the county to reach 2.55 million by 2010. Relative to the rest of the state, Miami-Dade's population is younger, but has a lower educational level (77.3% in 2008 were high school graduates compared to 85.2% in the state and 85.0% in the U.S.). Influencing this is the very large share of foreign-born residents--the highest of any county in the U.S. at 49.8%, compared with 18.5% in the state, and 12.5% in the US. The region has historically benefited from immigration from residents of the Caribbean and Latin American countries; we expect this to continue.

Strong population growth, business relocation, and foreign investment fueled a heated housing market and very rapid property tax base growth. The county's property tax base rose 20% in fiscal 2007 to $208 billion, and 16% to $ $239 billion in fiscal 2008. However, the recession has taken its toll during the past two years, and signs of recovery are mixed. The professional and business services and health and education sectors have shown positive signs but the construction, finance, retail, and leisure sectors are still experiencing employment losses. Unemployment fell to 10.5% as of November 2009, from 11.8% in October; a significant portion of the decline is attributable to lower labor force participation, because it contracted by 15,000 workers compared employment growth of approximately 3,000 jobs. In May 2010, county unemployment remained among the highest in the U.S., at 12.3%; it had averaged 11.5% for the previous 12 months.

The recession has had a greater impact on the south Florida regional economy than the U.S. as a whole due to a more severe downturn in the real estate market. It affected construction; related employment; and, to a limited degree, travel on the MDX system. In addition, the active hurricane seasons in 2004 and 2005 caused significant damage and resulted in significantly higher insurance costs, also affecting development in the state and region.

## Issuer And Management

MDX was created as a state agency in 1994 to operate and expand the existing system as well as to construct other regional transportation projects on an expressway system within Dade County. It has the authority to levy and collect tolls, rentals, and other charges for its expressway system; and finance its system investment through debt. A 13-member board, all are voting members serving four-year terms, governs MDX. The governor appoints five members and the Miami-Dade Commissioners appoint seven with the Florida Department of Transportation District 6 secretary serving as an ex-offcio member. We view management as experienced, with a solid track record of implementing sound policies, strong historical financial performance and favorable project delivery of important capital investments.

## System Overview

The existing 33-mile system (31 miles of which are tolled) currently includes five expressways running primarily east-west through the metropolitan Miami area, facilitating travel between the growing south and western suburbs to downtown Miami and the airport as well as the county's north and south. All toll plazas have dedicated SunPass lanes. Four system roads are part of the national and state highway system. The Snapper Creek Expressway is the only road not part of the national highway system, although it is part of the state's. The system is overwhelmingly an urban commuter system, with 98% of revenue from two-axle vehicles. Approximately 56% of transactions and 46% of revenues come from the Dolphin Expressway/East-West Expressway, a 14-mile segment serving commuters driving to/from downtown Miami and connecting Interstate 95 (I-95) and Miami International Airport. Toll rates per mile are relatively high compared with the broad range of toll facilities we rate. The highest is 30 cents per mile cash rate and 24 cents per mile SunPass rate on the Airport Expressway, which generates the most revenue per mile relative to the rest of the system.

The five expressways include:

- Airport Expressway (SR 112): Opened in 1961, SR 112 runs 4.1 miles from Miami International Airport on the west to I-95 on the east;
- Dolphin (East-West) Expressway (SR 836): Opened in 1965, SR 836 runs 14.0 miles through downtown Miami, to Miami International Airport and to the central and western parts of the county;
- Don Shula (South Dade) Expressway (SR 874): Opened in 1974, the SR 874 runs for 7.2 miles connecting southwest suburban areas of the county;
- Snapper Creek Expressway (SR 878): Opened in 1974, the SR 878 runs 3.0 miles and connects the Don Shula/South Dade Expressway to US Highway 1 and is not currently tolled; and
- Gratigny Parkway (SR 924): Opened in 1991, SR 924 runs 5.4 miles and connects Broward County via Interstate 75 and from the Palmetto Expressway in northwest Miami-Dade County to major arterials in northern Miami-Dade County, which connect to I-95.

The SunPass penetration rate (percentage of toll paying transactions captured electronically) has increased steadily to a systemwide 77% in April 2010. Differential pricing, SunPass-only lanes, and system extensions have encouraged a continual shift away from cash-paying customers. The authority plans a full ORT environment by fiscal 2015. In fiscal 2009, 75% of all transactions occurred using SunPass and 25% with cash. As SunPass penetration has increased, the share of vehicles that pay a toll (as opposed to using a portion of the system and exiting before paying a toll) has risen to approximately 45% in 2009 from 28% in 2006, and we expect this to continue to 55% as the initial ORT plan takes effect.

## Capital Program

The current five-year capital plan (2011-2015) is $494 million and includes 55 projects with a focus on ORT implementation (including all the civil works portions for systemwide ORT). It is about 52% complete. The plan also includes renewal and replacement as well as capacity-enhancing and interchange improvement projects. We believe management has a good track record of project delivery. The plan includes a small 1% contingency amount on top of those built into individual program elements. Debt service steps up considerably in fiscal 2012 to $71.1 million and is projected to increase to a maximum of $86.4 million in 2027. The debt service reserve fund (DSRF) was funded with a combination of cash and surety policies but due to the downgrades on the monoline bond insurers below 'AAA', as the trust indenture dictates, the authority has cash-funded the full DSRF requirement.

## ORT Conversion And Financial Projections

MDX is implementing ORT and removing toll plazas such that all tolls would be collected electronically via either SunPass (the current electronic toll collection system) or video tolling. This will enable the authority to capture those movements that don't currently pay a toll and increase revenue while keeping rates the same. The plan is to implement the first phase of ORT in 2011 on the SR 924 (which began July 1) and SR 874 (late summer 2010) and SR 878/Snapper Creek (late summer 2010). MDX's traffic and revenue consultant, Wilbur Smith Associates Inc. (WSA), assumed that 40% of the current cash paying users will convert to SunPass, growing the penetration rate to 84% with the remaining 16% of users evenly split between pre-registered and non-registered video tolling users, both of which will pay 15 cents more per transaction and $3.00 more per month in processing fees compared with SunPass users. As the ORT implementation is designed to keep users' cost per mile relatively stable, projections show incremental revenue growth of 11%-17% because more movements are captured and tolled. Revenue projections assuming the ORT's full implementation by fiscal 2015 indicate larger revenues increases above those of the partial-ORT forecast.

The WSA forecast through 2035 assumes no toll increases, indicating some revenue raising flexibility. Other key assumptions include 2.5% growth in annual inflation, 2.5% annual growth in users' value of time, and fuel prices gradually increasing to $3.00 per gallon and remaining there in real terms after adjusting for inflation. WSA's report includes, in our view, reasonable estimates of regional roadway system enhancements that provide competing alternatives to the toll system. Population and socioeconomic data levels were reverted to 2005 levels as a starting point for the traffic forecasts (2008), reflecting recent out-migration, population losses, and the recession's effects. However, the long-term traffic forecasts assume a return to 2035 projections prepared by regional metropolitan planning organizations (MPOs). While projections are lower in the near term, we view the assumption that the long-term forecasts are unchanged from those prepared by the MPOs prior to the recession as optimistic. In addition, the forecasts did not update origin-destination survey data originally collected in 2004.

Financial projections after ORT implementation in fiscal 2011 assume what we consider to be a reasonable increase of 7.2 % in 2012 toll revenue (SunPass and video tolling revenue), with additional growth rates tracking slightly ahead of assumed inflation at 2.7% to 3.0%. One key to achieving projected DSC in the 1.39x (low in 2014) to 1.61x (high in 2011) range during the forecast period through 2020 is limiting increases in operating and maintenance costs, which the report assumes will increase 12.0% in 2012 before falling to 6.0% growth in 2012, with an average increase of 4.6% through 2020.

## Bond Provisions

The 2010 bonds are on par with $912.8 million outstanding of series 1999, 2000, 2001A, 2002, 2004A-B, 2005A-E, and 2006 bonds. Bondholders benefit from a net revenue pledge. More specifically, the trustee has been granted a lien on, and security interest in, the revenues; the transfer agreement; all funds, accounts, and subaccounts; and from time to time the authority might assign any and all other contracts and revenues. MDX must fund the DSRF at bond closing at the least of maximum annual debt service (MADS), 120% of average annual debt service, or 10% of bond proceeds. Any deficiencies in the debt service reserve fund must be funded with 12 equal monthly installments.

Revenues are deposited with the trustee, and after paying operations and maintenance (O&M) expenses are used to first meet debt service requirements. Thereafter, remaining money is available to meet the DSRF requirement (if necessary), fund a renewal and replacement fund, and fund the general account. The authority will use the general fund money to pay scheduled debt service payments to the federal Department of Transportation (FDOT) under the State Infrastructure Bank loan agreements that are then in effect; pay the then-current noncontingent portion of annual repayment requirements and any remaining unpaid portion (up to $2 million per year); pay the unpaid portion of the contingent portion of the annual repayment requirements (if any); fund the rate-stabilization account; then fund the authority's account balance.

MDX has covenanted to maintain tolls such that the net revenues in each fiscal year (including the use of the rate stabilization fund, which we expect to level out at $30 million) will be at least equal to the greater of 120% of debt service and 100% of the sum of any deficiency in the debt service reserve fund, the debt service fund, the renewal and replacement fund, and the amounts required to meet the annual repayment requirement due to FDOT (if any; as well as any past due payments). Net revenues in each year excluding amounts transferred or to be transferred from the rate-stabilization account to the revenue fund will be at least equal to 100% of debt service requirements. We believe the rate covenant is weaker than those of other toll facilities in that it allows for the use of the rate-stabilization fund in the definition of revenues, potentially permitting operating cash flow to only be sufficient to meet debt service requirements. However, the authority's policy of maintaining a minimum debt service coverage ratio of at least 1.40x on the existing and planned debt issues mitigates this. Furthermore, this policy does not rely on using the rate-stabilization fund, which we consider a credit positive.

The additional bonds test requires that revenues meet the rate covenant during the current fiscal year and for each of the five full fiscal years following project completion. In addition, MDX must receive a certificate that it is current in its required payments to FDOT, and that the projected revenue estimates are sufficient to pay not only debt service obligations but also required payments to FDOT. If at the time of the issuance the authority owes FDOT money or projected revenues will not meet its obligations to the FDOT, then MDX must obtain written consent for the issuance from FDOT. In addition, the authority is restricted in the recognition of projected revenues for the purposes of the additional bonds test, which effectively limits debt until such time as the toll rates and resulting revenues are scheduled to take effect no later than 18 months after the consulting engineer provides their projections. Completion bonds are allowed as long as the total principal amount of debt to be issued does not exceed 10% of the original cost of any project finance with bonds. The authority may issue refunding bonds if the annual debt service requirements on the bonds to be refunded fall because of the refunding or if the bonds meet the additional bonds tests.

## Debt Derivative Profile: '1.5'

We have assigned MDX a Standard & Poor's overall DDP score of '1.5'. The score reflects Standard & Poor's view that the issuer swap portfolio reflects very low credit risk. The authority has four swaps outstanding that are all structured as floating-to-fixed rate, whereby it pays a fixed rate and receives a floating rate based on one month SIFMA. The swaps have a total notional value of $310 million. MDX's swap counterparties for all its swaps and the respective ratings on them are as follows: JP Morgan Chase & Co. (A+/Negative/A-1); UBS AG (A+/Stable/A-1); Citibank NA, New York Branch (A+/Negative/A-1); and Citigroup Financial Products LLC, with Citigroup Inc. (A/Negative) as the credit support provider.

Standard & Poor's DDP score reflects our view of termination risk, counterparty risk, management, and economic viability risk. MDX scored either a '1' or a '2' on most of these factors. We view the counterparty risk favorably due to the provisions requiring the swap counterparties to be replaced or post acceptable collateral generally after we lower the ratings on them below 'A-'. We believe management has a clear view of the risk involved in the swaps and has a board-approved swap management plan that allows for the appropriate policies for monitoring their swaps. In May 2009, MDX's index hedging the 2004A and 2005 bonds converted from a LIBOR-based floating rate to a Securities Industry and Financial Markets Association-based floating rate, exposing the authority to some basis risk that we view as manageable. As of July 7, 2010, the combined swaps have a current mark-to-market valuation of $49 million, not in MDX's favor. All termination payments are subordinate to debt service.

## Related Criteria And Research

- USPF Criteria: Toll Road And Bridge Revenue Bonds, June 13, 2007
- USPF Criteria: Municipal Swaps, June 27, 2007
- USPF Criteria: Debt Derivative Profile Scores, March 27, 2006

| **Ratings Detail** (As Of July 9, 2010) | | |
|---|---|---|
| Miami Dade Cnty Expwy Auth toll sys (wrap of insured) (AMBAC & BHAC) (SEC MKT) | | |
| *Unenhanced Rating* | A(SPUR)/Stable | Affirmed |
| Miami Dade Cnty Expwy Auth toll sys (wrap of insured) (AMBAC, AGM & BHAC) (SEC MKT) | | |
| *Unenhanced Rating* | A(SPUR)/Stable | Affirmed |
| Miami Dade Cnty Expwy Auth toll sys (wrap of insured) (FGIC & AGM) (SEC MKT) | | |
| *Unenhanced Rating* | A(SPUR)/Stable | Affirmed |
| **Miami Dade Cnty Expwy Auth toll sys** | | |
| *Unenhanced Rating* | A(SPUR)/Stable | Affirmed |
| **Miami Dade Cnty Expwy Auth toll sys rev** | | |
| *Unenhanced Rating* | A(SPUR)/Stable | Affirmed |

Many issues are enhanced by bond insurance.